

REPORT OF THE COMMISSION STAFF
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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UTILITIES DEPARTMENT

DOCKET NO. 2003-368-S
MADERA UTILITIES, INC.

REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-368-S
MADERA UTILITIES, INC.

REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-368-S
MADERA UTILITIES, INC.

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REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-368-S
MADERA UTILITIES, INC.

SYNOPSIS

| | |
|--|----------|
| Amount Requested - Excluding Projected Interconnection Expenses----- | \$77,156 |
| Amount Requested - Including Projected Interconnection Expenses----- | \$77,156 |

Operating Margins:

| | |
|--|----------|
| Per Books -Excluding Projected Interconnection Expenses----- | 0.21% |
| Per Books - Including Projected Interconnection Expenses----- | 0.21% |
| As Adjusted -Excluding Projected Interconnection Expenses----- | (28.28)% |
| As Adjusted - Including Projected Interconnection Expenses----- | (79.49)% |
| After Proposed Increase -Excluding Projected Interconnection Expenses-- | 54.26% |
| After Proposed Increase - Including Projected Interconnection Expenses-- | 45.68% |

REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

**DOCKET NO. 2003-368-S
MADERA UTILITIES, INC.**

ANALYSIS

The Audit Department Staff has performed a review of the Application of Madera Utilities, Inc. (hereafter referred to as the Company) along with certain of its accounting records relative to the Company's Application to increase certain of its rates and charges under Docket No. 2003-368-S.

The Company is a sewer utility operating in the State of South Carolina in Pickens County. The Company provides sewer service to 113 residential customers with its home office being located in Bennettsville, S.C. The Company had no employees during the test year with operating and maintenance and billing and collections being performed by outside parties. The administrative function was performed by the owners of the Company with no salaries being charged to the utility.

The following is a summary of the Docket relative to the Company's most recent rate case:

| Date of Order | Effective Date | Docket Number | Order Number | Amount Granted |
|------------------|-------------------|------------------|-----------------|-------------------|
| 1-12-1990 | 1-12-1990 | 88-45-S | 90-31 | \$17.50 Flat Rate |

In the current application, the Company is requesting rates to cover South Carolina Department of Health and Environmental Control (DHEC) required upgrades and costs associated with eliminating discharge into Eighteen Mile Creek in Pickens County per DHEC Administrative Order 01-214-W dated 9-27-2001. This requirement has been confirmed by an Administrative Law Judge under Docket No. 01-ALJ-07-0468-CC dated 1-15-2002. Even though none of the required costs to upgrade or to eliminate the discharge into Eighteen Mile Creek have been incurred, Staff has included them in Exhibit B for the Commission's consideration since they are mandated by an Administrative Order. The Company is requesting a flat rate of \$74.40 per month, or \$100,886. The Commission's Utilities Department calculated the requested increase to be \$77,156 annually, as shown on Audit Exhibits A and B. The Staff's exhibits relative to the Company's application are as follows:

**AUDIT EXHIBIT A: OPERATING EXPERIENCE AND OPERATING MARGIN
- EXCLUDING PROJECTED INTERCONNECTION EXPENSES**

Detailed in this Staff exhibit is the Company's Operating Experience and Operating Margins for the test year ended December 31, 2002 and the accounting and pro forma adjustments which are necessary to correct or normalize the Company's test year operations both before and after the effect of the requested increase.

Utilizing per book income of \$46 and revenues of \$22,160, Staff computed an operating margin on per book operations of 0.21%. Accounting and pro forma adjustments decreased income resulting in an Operating Loss of \$(6,711) and increased revenues to \$23,730 resulting in a decrease in the Operating Margin to (28.28%). After the Staff adjusted operations for the requested increase of \$77,156, the Operating Margin increases to 54.26%.

**AUDIT EXHIBIT B: OPERATING EXPERIENCE AND OPERATING MARGIN
- INCLUDING PROJECTED INTERCONNECTION EXPENSES**

Detailed in this Staff exhibit is the Company's Operating Experience and Operating Margins for the test year ended December 31, 2002 and the accounting and pro forma adjustments which are necessary to correct or normalize the Company's test year operations both before and after the effect of the requested increase under the assumption that the Company makes the necessary plant upgrades, constructs a lift station, and connects to the City of Clemson.

Utilizing per book income of \$46 and revenues of \$22,160, Staff computed an operating margin on per book operations of 0.21%. Accounting and pro forma adjustments decreased income resulting in an Operating Loss of \$(10,294) and increased revenues to \$23,730 resulting in a decrease in the Operating Margin to (79.49%). After the Staff adjusted operations for the requested increase of \$77,156, the Operating Margin increases to 45.68%.

**AUDIT EXHIBITS A-1 and B-1: EXPLANATION OF ACCOUNTING AND PRO
FORMA ADJUSTMENTS**

Detailed in these exhibits are the accounting and pro forma adjustments and each adjustment made necessary as a result of the proposed increase.

AUDIT EXHIBITS A-2 and B-2: CUSTOMER GROWTH COMPUTATION

The Staff's computation of the Company's customer growth factor is shown in these exhibits. The Staff computed a growth factor of 0.89% for the test year. However, the Staff did not include customer growth because year-end customers were used to annualize revenue.

AUDIT EXHIBIT A-3: INCOME STATEMENT

In this exhibit, the Staff has presented the Company's Income Statement as filed with this Commission for the calendar year ended December 31, 2002.

AUDIT EXHIBIT A-4: BALANCE SHEET

In this exhibit, the Staff has presented the Company's Balance Sheet as filed with this Commission for the calendar year ended December 31, 2002.

Madera Utilities, Inc.
Operating Experience and Operating Margin
Test Year Ended December 31, 2002

Excluding Projected Interconnection Expenses

| Description | (1) Per Books \$ | (2) Accounting & Pro Forma Adjustments \$ | (3) As Adjusted \$ | (4) Proposed Increase \$ | (5) After Proposed Increase \$ |
|--|------------------------|---|-----------------------------|-----------------------------------|--|
| Operating Revenue: | | | | | |
| Service Revenue | 22,160 | 1,570 | (1) 23,730 | 77,156 | (7) 100,886 |
| Misc. Income - Reconnect Charge | 0 | 0 | 0 | 0 | 0 |
| Total Operating Revenues | 22,160 | 1,570 | 23,730 | 77,156 | 100,886 |
| Operating and Maintenance Expenses | 16,929 | 0 | (2) 16,929 | 0 | 16,929 |
| General and Administrative Expenses | 4,123 | 8,314 | (3) 12,437 | 0 | 12,437 |
| Depreciation & Amortization Expense | 0 | 0 | (4) 0 | 0 | 0 |
| Miscellaneous Expense | 231 | 0 | 231 | 0 | 231 |
| Other Taxes and Licenses | 831 | 13 | (5) 844 | 628 | (8) 1,472 |
| Income Taxes | 0 | 0 | 0 | 15,073 | (9) 15,073 |
| Total Operating Expenses | 22,114 | 8,327 | 30,441 | 15,701 | 46,142 |
| Net Operating Income/Loss | 46 | (6,757) | (6,711) | 61,455 | 54,744 |
| Customer Growth (Exh. A-2) | 0 | 0 | (6) 0 | 0 | (10) 0 |
| Net Income/Loss For Return | 46 | (6,757) | (6,711) | 61,455 | 54,744 |
| Operating Margin | 0.21% | | -28.28% | | 54.26% |
| Interest Expense for Oper. Margin | - | | - | | - |

Madera Utilities, Inc.
Operating Experience and Operating Margin
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Description | (1) Per Books \$ | (2) Accounting & Pro Forma Adjustments \$ | (3) As Adjusted \$ | (4) Proposed Increase \$ | (5) After Proposed Increase \$ |
|--|------------------------|---|-----------------------------|-----------------------------------|--|
| Operating Revenue: | | | | | |
| Service Revenue | 22,160 | 1,570 | (1) 23,730 | 77,156 | (7) 100,886 |
| Misc. Income - Reconnect Charge | 0 | 0 | 0 | 0 | 0 |
| Total Operating Revenues | 22,160 | 1,570 | 23,730 | 77,156 | 100,886 |
| Operating and Maintenance Expenses | 16,929 | (8,784) | (2) 8,145 | 0 | 8,145 |
| General and Administrative Expenses | 4,123 | 8,314 | (3) 12,437 | 0 | 12,437 |
| Depreciation & Amortization Expense | 0 | 12,367 | (4) 12,367 | 0 | 12,367 |
| Miscellaneous Expense | 231 | 0 | 231 | 0 | 231 |
| Other Taxes and Licenses | 831 | 13 | (5) 844 | 628 | (8) 1,472 |
| Income Taxes | 0 | 0 | 0 | 11,579 | (9) 11,579 |
| Total Operating Expenses | 22,114 | 11,910 | 34,024 | 12,207 | 46,231 |
| Net Operating Income / Loss | 46 | (10,340) | (10,294) | 64,949 | 54,655 |
| Customer Growth (Exh. B-2) | 0 | 0 | (6) 0 | 0 | (10) 0 |
| Net Income / Loss For Return | 46 | (10,340) | (10,294) | 64,949 | 54,655 |
| Operating Margin | 0.21% | | -79.49% | | 45.68% |
| Interest Expense for Oper. Margin | - | | 8,569 | | 8,569 |

Madera Utilities, Inc.
Explanation of Accounting and ProForma Adjustments
Test Year Ended December 31, 2002

Excluding Projected Interconnection Expenses

| Revenues and Expenses | (1) | (2) | (3) | (4) | (5) | (6) |
|--|-----------------|--------------|-------------|------------------------|--------------------------|-----------------|
| Description | Service Revenue | O&M Expenses | G&A Expense | Depr. & Amort. Expense | Other Taxes and Licenses | Customer Growth |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| (1) The Staff proposes to annualize service revenues using year-end customers of 113 and the present approved flat monthly rate of \$17.50. (A&U) | | | | | | |
| Per Staff | 1,570 | | | | 13 | |
| Per Company | 0 | | | | 0 | |
| (2) The Company proposes to adjust Operating and Maintenance expenses for known and measurable increases. The Company's adjustment was based on estimated increases to O&M expense based on a trend analysis performed by the Company using the assumption that the lift station and upgrade will not be approved. The Staff did not include these expenses because they are estimated amounts and are not known and measurable. (A) | | | | | | |
| Per Staff | | | | | | |
| Per Company | | 2,305 | | | | |
| (3) The Staff proposes to amortize actual rate case expenses of \$1,000 over 5 years while the Company proposes to expense total estimated rate case expenses in the test year. Staff considers a 5 year amortization period for rate case expenses to be reasonable. (A) | | | | | | |
| Per Staff | | | | | | 2,200 |
| Per Company | | | | | | 346 |

Madera Utilities, Inc.
Explanation of Accounting and ProForma Adjustments
Test Year Ended December 31, 2002

Excluding Projected Interconnection Expenses

| Revenues and Expenses | (1) | (2) | (3) | (4) | (5) | (6) |
|--|-----------------|--------------|-------------|-------------------------|--------------------------|-----------------|
| Description | Service Revenue | O&M Expenses | G&A Expense | Depre. & Amort. Expense | Other Taxes and Licenses | Customer Growth |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| (4) The Company proposes to amortize loans in the amounts of \$134,000, for the cost of constructing a lift station, and \$180,000, for the cost of needed repairs and upgrades, over a 15 year period and include this cost in operating expenses. The Staff did not accept the adjustment because the loans have not been made and are not a proper operating expense. Loans are classified as a liability on the Balance Sheet. (A) | | | | | | |
| Per Staff | | | | 0 | | |
| Per Company | | | | 31,796 | | |
| (5) The Company proposes to increase expenses for attorney's fees incurred prior to the test year but not paid. The Staff did not accept the adjustment because the fees were for a lawsuit that was not related to the test year. Additionally, they are possibly nonrecurring legal fees. (A) | | | | | | |
| Per Staff | | | 0 | | | |
| Per Company | | | 6,072 | | | |
| (6) The Staff proposes to increase General and Administrative expenses for known and measurable increases in bill collection fees assessed by the city of Clemson. The Company's adjustment was based on estimated increases to General and Administrative expenses for bill collection fees. (A) | | | | | | |
| Per Staff | | | 6,114 | | | |
| Per Company | | | 6,048 | | | |

Madera Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2002

Excluding Projected Interconnection Expenses

| Revenues and Expenses | (1) | (2) | (3) | (4) | (5) | (6) |
|--|-----------------|--------------|-------------|------------------------|--------------------------|-----------------|
| Description | Service Revenue | O&M Expenses | G&A Expense | Depr. & Amort. Expense | Other Taxes and Licenses | Customer Growth |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| (7) The Company proposes to increase General and Administrative expenses for management fees accrued for earlier years but not yet paid due to a lack of funds. The Staff did not include the adjustment because it is for expenses that were incurred prior to the test year. (A) | | | | | | |
| Per Staff | | | 0 | | | |
| Per Company | | | 11,355 | | | |
| (8) The Company proposes to adjust General and Administrative expenses for the current year's management fees which have not been paid due to a lack of funds. Staff was unable to verify the duties performed to justify the fee and therefore did not allow the adjustment. (A) | | | | | | |
| Per Staff | | | 0 | | | |
| Per Company | | | 18,000 | | | |
| Total Accounting and Pro Forma Adjustments - Revenues and Expenses - Per Staff | 1,570 | 0 | 8,314 | 0 | 13 | 0 |
| Total Accounting and Pro Forma Adjustments - Revenues and Expenses - Per Company | 0 | 2,305 | 41,821 | 31,796 | 0 | 0 |

Madera Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2002

Excluding Projected Interconnection Expenses

| Proposed Increase | (7) | (8) | (9) | (10) |
|---|-----------------|-------------------------|--------------|-----------------|
| Description | Service Revenue | Taxes Other Than Income | Income Taxes | Customer Growth |
| | \$ | \$ | \$ | \$ |
| (9) The Staff and Company propose to record the effects of the proposed increase. (A&U) | | | | |
| Per Staff | 77,156 | 628 | 15,073 | 0 |
| Per Company | 77,840 | 0 | 0 | 0 |
| Total Accounting and Pro Forma Adjustments - Proposed Increase - Per Staff | 77,156 | 628 | 15,073 | 0 |
| Total Accounting and Pro Forma Adjustments - Proposed Increase - Per Company | 77,840 | 0 | 0 | 0 |

(A) - Adjustment is the responsibility of the Audit Department witness.
(U) - Adjustment is the responsibility of the Utilities Department witness.

Madera Utilities, Inc.
Explanation of Accounting and ProForma Adjustments
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Revenues and Expenses | (1) | (2) | (3) | (4) | (5) | (6) |
|---|-----------------|--------------|-------------|-------------------------|--------------------------|-----------------|
| Description | Service Revenue | O&M Expenses | G&A Expense | Depre. & Amort. Expense | Other Taxes and Licenses | Customer Growth |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| (1) Staff proposes to annualize service revenues using the year-end customers of 113 and the present approved flat monthly rate of \$17.50. (A&U) | 1,570 | | | | 13 | |
| Per Staff | 0 | | | | 0 | |
| Per Company | | | | | | |
| (2) The Company proposes to adjust Operating and Maintenance expenses. The Company's adjustment was based on estimated increases to O&M expense based on a trend analysis performed by the Company using the assumption that the lift station and upgrade will not be approved. The Staff did not include these expenses because they are estimated amounts and are not known and measurable. (A) | | | | | | |
| Per Staff | | 0 | | | | |
| Per Company | | 2,305 | | | | |
| (3) Staff proposes to reduce Operating and Maintenance expenses eliminated with the installation of the lift station and connection to the City of Clemson. These expenses are the salary of an operator, chemical expenses and lab costs. (A&U) | | | | | | |
| Per Staff | | (8,784) | | | | |
| Per Company | | 0 | | | | |

Madera Utilities, Inc.
Explanation of Accounting and ProForma Adjustments
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Revenues and Expenses | (1) Service Revenue | (2) O&M Expenses | (3) G&A Expense | (4) Depre. & Amort. Expense | (5) Other Taxes and Licenses | (6) Customer Growth |
|-----------------------|---------------------------|------------------------|-----------------------|--------------------------------------|------------------------------------|---------------------------|
| Description | \$ | \$ | \$ | \$ | \$ | \$ |

(4) The Staff proposes to amortize actual rate case expenses of \$11,000 over 5 years while the Company proposes to expense total estimated rate case expenses in the test year. Staff considers a 5 year amortization period for rate case expenses to be reasonable. (A)

| | |
|-------------|-------|
| Per Staff | 2,200 |
| Per Company | 346 |

(5) The Company proposes to record the effects of borrowing \$314,000, which they say is necessary to perform the upgrades on the system, as required by DHEC. The Company's adjustment includes one year's amortization of a 15 year loan and a year's interest expense using an interest rate of 6%. Staff does not recognize loan repayments or interest expense in operating expenses but does allow annualized interest in the booking of income tax expense and in the computation of the operating margin based on interest synchronization. Staff's adjustment is based on preliminary construction cost estimates by the engineering firm of B.P. Barber & Associates, Inc. for the City of Clemson, dated December, 2002, less the contingency fee of \$16,000, which Staff does not recognize for ratemaking purposes. The Staff depreciated the projected portion of this cost assigned to the lift station totaling \$118,000 over 15 years and the remaining \$180,000 for projected repair cost over 40 years. The Staff's Utilities Department supplied the depreciation rates. (A&U)

| | |
|-------------|--------|
| Per Staff | 12,367 |
| Per Company | 31,796 |

Madera Utilities, Inc.
Explanation of Accounting and ProForma Adjustments
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Revenues and Expenses | | (1) | (2) | (3) | (4) | (5) | (6) |
|--|--|-----------------|--------------|-------------|-------------------------|--------------------------|-----------------|
| Description | | Service Revenue | O&M Expenses | G&A Expense | Depre. & Amort. Expense | Other Taxes and Licenses | Customer Growth |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| (6) The Company proposes to increase expenses for unpaid attorney's fees incurred prior to the test year but not paid. The Staff did not accept the adjustment because the fees were for a lawsuit that was not related to the test year. Additionally, they are possibly nonrecurring legal fees. (A) | | | | | | | |
| Per Staff | | | | 0 | | | |
| Per Company | | | | 6,072 | | | |
| (7) The Staff proposes to increase General and Administrative expenses for known and measurable increases in bill collection fees assessed by the city. The Company's adjustment was based on estimated increases to General and Administrative expenses for bill collection fees. (A) | | | | | | | |
| Per Staff | | | | 6,114 | | | |
| Per Company | | | | 6,048 | | | |
| (8) The Company proposes to increase General and Administrative expenses for management fees accrued for earlier years but not yet paid due to a lack of funds. The Staff did not include the adjustment because it is for expenses that were incurred prior to the test year. (A) | | | | | | | |
| Per Staff | | | | 0 | | | |
| Per Company | | | | 11,355 | | | |

Madera Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Revenues and Expenses | (1) | (2) | (3) | (4) | (5) | (6) |
|-----------------------|-----------------|--------------|-------------|-------------------------|--------------------------|-----------------|
| Description | Service Revenue | O&M Expenses | G&A Expense | Depre. & Amort. Expense | Other Taxes and Licenses | Customer Growth |
| | \$ | \$ | \$ | \$ | \$ | \$ |

- (9) The Company proposes to adjust General and Administrative expenses for the current year's management fees which have not been paid due to a lack of funds. Staff was unable to verify the duties performed to justify the fee and therefore did not allow the adjustment.
(A)

| | |
|-------------|--------|
| Per Staff | 0 |
| Per Company | 18,000 |

| | | | | | | |
|--|-------|---------|--------|--------|----|---|
| Total Accounting and Pro Forma Adjustments - Revenues and Expenses - Per Staff | 1,570 | (8,784) | 8,314 | 12,367 | 13 | 0 |
| Total Accounting and Pro Forma Adjustments - Revenues and Expenses - Per Company | 0 | 2,305 | 41,821 | 31,796 | 0 | 0 |

Madera Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Proposed Increase | (7) | (8) | (9) | (10) |
|--|-----------------|-------------------------|--------------|-----------------|
| Description | Service Revenue | Taxes Other Than Income | Income Taxes | Customer Growth |
| | \$ | \$ | \$ | \$ |
| (10) The Staff and Company propose to record the effects of the proposed increase. (A&U) | | | | |
| Per Staff | 77,156 | 628 | 11,579 | 0 |
| Per Company | 77,840 | 0 | 0 | 0 |
| Total Accounting and Pro Forma Adjustments - | | | | |
| Proposed Increase - Per Staff | 77,156 | 628 | 11,579 | 0 |
| Total Accounting and Pro Forma Adjustments - | | | | |
| Proposed Increase - Per Company | 77,840 | 0 | 0 | 0 |

(A) - Adjustment is the responsibility of the Audit Department witness.
(U) - Adjustment is the responsibility of the Utilities Department witness.

Madera Utilities, Inc.
Computation of Customer Growth
Test Year Ended December 31, 2002

Excluding Projected Interconnection Expenses

| Description | (1) Per Books \$ | (2) As Adjusted \$ | (3) After Increase \$ |
|----------------------|------------------------|-----------------------------|--------------------------------|
| Net Operating Income | 46 | (6,711) | 54,744 |
| Growth Factor | 0.89% | 0.89% | 0.89% |
| Customer Growth | - | - | - See Note |

NOTE: The Staff used year-end customers and the present flat rate of \$17.50 to annualize revenues in lieu of using the customer growth factor.

Number of Customers:

| | |
|-----------|-----|
| Beginning | 110 |
| Ending | 113 |
| Average | 112 |

Ending Customers represent customers @ 12-31-02

$$\text{Growth Factor} = \frac{\text{Ending Customers} - \text{Average Customers}}{\text{Average Customers}}$$

$$\text{Growth Factor} = \frac{113 - 112}{112}$$

$$\text{Growth Factor} = \underline{\underline{0.89\%}}$$

Madera Utilities, Inc.
Computation of Customer Growth
Test Year Ended December 31, 2002

Including Projected Interconnection Expenses

| Description | (1) Per Books | (2) As Adjusted | (3) After Increase |
|----------------------|------------------|-----------------------|--------------------------|
| | \$ | \$ | \$ |
| Net Operating Income | 46 | (10,294) | 54,655 |
| Growth Factor | 0.89% | 0.89% | 0.89% |
| Customer Growth | - | - | - See Note |

NOTE: The Staff used year-end customers and the present flat rate of \$17.50 to annualize revenues in lieu of using the customer growth factor.

Number of Customers:

| | |
|-----------|-----|
| Beginning | 110 |
| Ending | 113 |
| Average | 112 |

Ending Customers represent customers @ 12-31-02

$$\text{Growth Factor} = \frac{\text{Ending Customers} - \text{Average Customers}}{\text{Average Customers}}$$

$$\text{Growth Factor} = \frac{113 - 112}{112}$$

$$\text{Growth Factor} = \underline{\underline{0.89\%}}$$

Madera Utilities, Inc.
Income Statement
Year Ended December 31, 2002

| | | |
|-------------------------|--------------|------------------|
| REVENUES: | \$ | \$ |
| Income from Customers | | 22,160 |
| EXPENSES: | | |
| Chemicals | 2,138 | |
| Repairs and Maintenance | 2,695 | |
| Taxes and Licenses | 831 | |
| Professional Fees | 454 | |
| Bank Charges | 16 | |
| Contract Services | 10,250 | |
| Lab Costs | 1,846 | |
| Misc. Expense | 231 | |
| Postage | 161 | |
| Utilities and Telephone | <u>3,492</u> | |
| Total Expenses | | <u>22,114</u> |
| Total Operating Income | | <u><u>46</u></u> |

Madera Utilities, Inc.
Balance Sheet
December 31, 2002

| | | |
|--------------------------------|------------------|---------------------|
| ASSETS: | \$ | \$ |
| CURRENT ASSETS | | |
| Cash | | 1,830 |
| FIXED ASSETS | | |
| Lagoons | 30,000 | |
| Tanks and Wells | 18,500 | |
| Water and Sewer Lines | 72,585 | |
| Equipment | 25,939 | |
| | <u>147,024</u> | |
| Less: Accumulated Depreciation | <u>(147,024)</u> | 0 |
| Land | | <u>800</u> |
| TOTAL ASSETS | | <u><u>2,630</u></u> |
| LIABILITIES AND EQUITY: | | |
| LIABILITIES | | |
| Loans From Stockholders | | 10,920 |
| EQUITY | | |
| Capital Stock | 2,000 | |
| Retained Earnings | <u>(10,290)</u> | <u>(8,290)</u> |
| TOTAL LIABILITIES AND EQUITY | | <u><u>2,630</u></u> |

**REPORT OF THE
UTILITIES DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

MADERA UTILITIES, INC.

DOCKET NO. 2003-368-S

MADERA UTILITIES, INC.

DOCKET NO. 2003-368-S

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**UTILITIES DEPARTMENT
EXHIBIT NO. 1**

Madera Utilities, Inc. is operating under rates and charges approved by Commission Order No. 90-31, issued January 12, 1990, in Docket No. 88-45-S.

SUMMARY OF PRESENT AND PROPOSED RATES

| CUSTOMER | PRESENT | PROPOSED | AMOUNT OF | PERCENT |
|---------------------------|--------------------|--------------------|------------------------|------------------------|
| <u>Residential</u> | <u>RATE</u> | <u>RATE</u> | <u>INCREASE</u> | <u>INCREASE</u> |
| Residential (flat rate) | \$ 17.50 | \$ 74.40 | \$ 56.90 | 325.14% |

**UTILITIES DEPARTMENT
EXHIBIT NO. 2**

EFFECT OF PROPOSED INCREASE ON OPERATING REVENUE

Utilities Department Exhibit No. 2 shows the effect of the proposed increase on the Company's operating revenue. The requested rates will produce \$77,156 in additional revenue which is an increase of 325.14 %.

| Source of Revenue | Per Books \$ | Adjustment \$ | After Adjustment \$ | Increase \$ | After Increase \$ | Percent Increase % |
|----------------------|--------------------|------------------|---------------------------|----------------|-------------------------|--------------------------|
| Sewer Service | 22,160 | 1,570 (1) | 23,730 | 77,156 (2) | 100,886 | 325.14 |
| Total rev. | 22,160 | 1,570 | 23,730 | 77,156 | 100,886 | 325.14 |

(1) To annualize revenues.

(2) To add to the adjusted revenues the proposed increase for the test year.

**UTILITIES DEPARTMENT
EXHIBIT NO. 3**

EFFECT OF PROPOSED INCREASE ON CUSTOMER'S MONTHLY BILL

Utilities Department Exhibit No. 3 shows the effect of the proposed rates and charges on the residential customer's monthly sewer bill. The requested increase in a residential sewer bill will be \$56.90 or 325.14%.

EFFECT OF PROPOSED INCREASE ON MONTHLY SEWER BILL

| Customer Flat Rate /Month | Present Bill | Proposed Bill | Amount of Increase | Percent Increase |
|------------------------------|-----------------|------------------|-----------------------|---------------------|
| Residential | \$17.50 | \$74.40 | \$56.90 | 325.14% |

UTILITIES DEPARTMENT EXHIBIT NO. 4

UTILITIES DEPARTMENT REVIEW OF SERVICE PROVIDED BY THE COMPANY

ON APRIL 21, 2004, PERSONNEL FROM THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA STAFF PERFORMED AN INSPECTION OF THE WASTEWATER TREATMENT PLANT. THE COMPANY PROVIDES SERVICE TO 113 RESIDENTS IN THE HEATHERWOOD SUBDIVISION IN PICKENS COUNTY SOUTH CAROLINA. THE RECORDS OF THE CONSUMER SERVICES DEPARTMENT DO NOT REFLECT ANY COMPLAINTS ON THE COMPANY.

SINCE THE NOTICE OF FILING WAS MAILED TO THE COMPANY'S CUSTOMERS, STAFF HAS RECEIVED 3 PROTESTANT LETTERS AND 33 PETITIONS TO INTERVENE.

THE COMPANY PROVIDES ADEQUATE SERVICE TO ITS CUSTOMERS.

THE FOLLOWING PAGE IS THE INSPECTION REPORT OF THE TREATMENT PLANT. THE SYSTEM OVERALL IS IN SATISFACTORY CONDITION.

THE COMPANY RECEIVED AN OVERALL RATING OF SATISFACTORY ON THE WASTEWATER TREATMENT FACILITY OPERATION AND MAINTENANCE EVALUATION REPORT DATED JUNE 2, 2003, FROM THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (SCDHEC).

UTILITIES DEPARTMENT – PLANT INSPECTION

SEWERAGE SYSTEM INSPECTION

UTILITY: MADERA UTILITIES, INC. NO. OF CUSTOMERS: 113

SYSTEM: HEATHERWOOD WWTF DATE INSPECTED: 4-21-04

INSPECTED BY: WM. RICHARDSON CO. REPRESENTATIVE: _____

TYPE OF PLANT: MECHANICAL _____ LAGOON X

EXTENT OF TREATMENT: PRIMARY _____ SECONDARY X TERTIARY _____

CHLORINATOR YES X NO _____

OTHER CHEMICALS IN USE YES X NO _____

AERATORS YES X NO _____

PLANT FENCED & LOCKED YES X NO _____

WARNING SIGNS VISIBLE YES X NO _____

HOLES IN FENCE YES _____ NO X

EROSION OF DIKES YES _____ NO X

ODOR YES _____ NO X

GRASS CUT YES _____ NO X

DUCK WEED OR ALGAE YES X NO _____

GREASE BUILD-UP YES _____ NO X

DEBRIS INSIDE PLANT YES _____ NO X

COLOR OF EFFLUENT CLEAR

LIFT STATIONS YES _____ NO X NUMBER _____

FAILURE WARNING SYSTEM YES _____ NO _____

ELECTRIC WIRING (ACCEPTABLE) YES _____ NO _____

OVERFLOWS YES _____ NO _____

CONDITION OF ACCESS ROAD GOOD X BAD _____

NEW CONSTRUCTION YES _____ NO X

HOUSES YES _____ NO _____

UTILITY YES _____ NO _____

FREQUENCY CHECKED BY OPERATOR DAILY

LOCATION OF UTILITY OFFICE P. O. BOX 1175, BENNETTSVILLE, SC 29512

LOCATION OF SYSTEM INSIDE CITY LIMITS OF CLEMSON, SC

IS SUBDIVISION PROVIDED WATER BY THIS UTILITY? YES _____ NO X

BY WHOM? CITY OF CLEMSON

COMMENTS: _____

**UTILITIES DEPARTMENT
EXHIBIT NO. 5**

Madera Utilities, Inc.
Alternate Revenue Requirements
Test Year Ending 12-31-02

| | (1)(A) Revenue Required After Increase | 2 Proposed Increase (Decrease) Required | (3)(U) Monthly Rates Required |
|---------------------------|--|---|--|
| | Per Exhibit A | | |
| | \$ | \$ | \$ |
| Operating Margin @ 0.00% | 30,496 | 6,766 | 22.49 |
| Operating Margin @ 5.00% | 32,525 | 8,795 | 23.99 |
| Operating Margin @ 10.00% | 34,845 | 11,115 | 25.70 |
| Operating Margin @ 15.00% | 37,525 | 13,795 | 27.67 |
| Operating Margin @ 20.00% | 40,645 | 16,915 | 29.97 |
| Operating Margin @ 25.00% | 44,335 | 20,605 | 32.70 |
| Operating Margin @ 30.00% | 48,760 | 25,030 | 35.96 |
| Operating Margin @ 35.00% | 54,170 | 30,440 | 39.95 |
| Operating Margin @ 40.00% | 60,915 | 37,185 | 44.92 |
| Operating Margin @ 45.00% | 69,605 | 45,875 | 51.33 |
| Operating Margin @ 50.00% | 81,155 | 57,425 | 59.85 |
| Operating Margin @ 54.26% | 100,886 | 77,156 | 74.40 |
| | Per Exhibit B | | |
| Operating Margin @ 0.00% | 34,108 | 10,378 | 25.15 |
| Operating Margin @ 5.00% | 45,595 | 21,865 | 33.62 |
| Operating Margin @ 10.00% | 48,845 | 25,115 | 36.02 |
| Operating Margin @ 15.00% | 52,600 | 28,870 | 38.79 |
| Operating Margin @ 20.00% | 56,975 | 33,245 | 42.02 |
| Operating Margin @ 25.00% | 62,145 | 38,415 | 45.83 |
| Operating Margin @ 30.00% | 68,355 | 44,625 | 50.41 |
| Operating Margin @ 35.00% | 75,930 | 52,200 | 56.00 |
| Operating Margin @ 40.00% | 85,390 | 61,660 | 62.97 |
| Operating Margin @ 46.15% | 100,886 | 77,156 | 74.40 |

(A) The Audit Department calculated the revenue requirement.

(U) The Utilities Department calculated the monthly rates required.